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INFORMAL ECONOMY AND URBAN SPATIAL CHANGES IN THE BORDER TOWN BANEH. A CASE STUDY FROM THE IRANIAN-IRAQI BORDER

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Abstract

Considering the various economic and political contexts in different parts of the world, economic relations and integration are performed with different intensity in regions such as the EU or the Middle East. One of the main reasons for the emerging of informal economy at the border regions in the Middle East is the strong barrier function of boundaries in Middle East countries. The Tourism consumption has extended recently in Baneh County, one of the western border regions of Iran neighboring with Iraq. The specific situation of informal economy, low price of smuggled goods, commercial tourism and massive flows of financial capital, all together have caused unpredictable changes in micro and macro levels of the Iran & Iraq border region and specially in Baneh County. The future growth of Baneh County is despite emerging positive spatial changes in Baneh city, doubtful. Unclear policies of local and national government regarding decision making, unclear management of the informal economy and currency instability create an uncertain future. Conventional methods of planning will not have necessary enough impact and effects in order to influence those issues in border regions. The paper is based on the examination of recent spatial changes and economic trends, which were done by descriptive and analytical methods in Baneh city. The research was documented through face to face and video interviews with local stakeholders, photography, field works and visits to the border region. As a result, some strategies were determined which steer recent trends. Further on threats towards a sustainable regional development had been described.

Keywords: *Informal economy, border regions, commercial tourism, urban and regional spatial changes, strategic analysis.*

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Introduction

The informal economy and its spatial consequences is one of the most important issues in the border regions of Iran. The topic had been neglected in recent national and regional territorial plans. There are many factors that affect border provinces, such as discrimination and inequality in employment opportunities and income. The consequences of this inequality are poverty, lack of security, lack of minimal indicators of life quality, migration and smuggling. In addition, the marginalization of these regions from the central government intensify those problems. The border residents had been prompted to diversify their business exploiting the divide. They are forced to test new ways to secure their life quality – putting them in contrast with the formal rules from the capitol. The resulting activities have profound impacts on the economic, social, cultural, physical and spatial structure of border regions.

Despite of the difficulties of the informal economic activities, there are significant positive effects of the informal economy on the life quality of border residents such as:

- Establishment of commercial and financial centers such as malls and banks in Baneh city
- transforming the city from an administrative-political to a commercial role
- Flourishing economic activities in rural areas through the creation of informal depots of imported goods, which helps to keep and even increase the rural population
- Increasing employment in the service sector
- Increasing employment opportunities related to the informal trade
- Increasing commercial tourism

The economic growth and the urban development of Baneh are indicated by the rising per capita income of the border residents. They become less reliant on agriculture and industry. This results in the creation of appropriate security in the margins of the country, which is a positive result for the national government.

This study attempts to analyze and assess the significant economic and spatial consequences of the informal economic activities and the trade tourism on

Baneh. As a result, strategies will be extracted which might support a sustainable regional development.

The spatial effects of informal economic activities in Baneh

The regional development planning in Iran has rarely had a positive role for sustainable regional development. The role of cities in the peripheral border regions had been almost fully neglected. The national regional development plans contain a couple of obstructions for the border regions such as: top-bottom approach, non-reliance on the original context of development and a lack of participation on the one hand and using traditional methods of development researches, while ignoring newer and innovative theoretical approaches and methods of scientific knowledge on the other hand.

Baneh city in the Kurdistan province of Iran, is one of the border cities that have been exposed to a wide trade and goods exchange. The difference between national currency prices on both sides of the border has created a flow of informal activities like smuggling and non-registered trade. Most of the smuggled goods are consumed by commercial tourists from throughout the country. According to the head of the Cultural Heritage of Kurdistan province, 1.438.500 commercial tourists visited Baneh city in the first four months of 2009 (Felegari, 2009). The existence of this massive influx of tourists who are buying the smuggled goods have extensive spatial and physical consequences on the city and the region. The central part of Baneh city has had extensive changes over less than a decade due to the construction of commercial centers and malls. The population increased unexpectedly in the city, which has nowadays 104422 inhabitants and most of the border villages, leading to an unprecedented and unstable monetary circulation. But all of these changes are insecure, since the flow of capital is affected by government legislation. The decisions of the national government can change the situation in the border region easily by blocking the borders or increasing the currency price.

In order to develop Baneh sustainable, it is necessary to create plans for the future. The economic, social and cultural boom and sustainable development can be realized within the region by planning, managing and monitoring the recent changes correctly. But, insecurity, the occurrence of an unstable border economy, unemployment, depression and inactivity might be a result of the inadvertence of local and national institutions resulting in the disorganization and marginalization of the border region.

The conventional methods of planning are not responsible and efficient enough to analyze spatial and physical changes of the region and the city. Therefore, special methods for the process of surveying, recognizing and analyzing are required. They have to take into consideration the special situation in border regions.

This paper attempts to survey the imported smuggling goods and analyze the spatial and physical consequences of this flow on the urban space. Strategic planning approaches in urban development should be the base for analyzing and steering the recent unstable changes to a sustainable urban and regional development. A systematic approach is necessary to identify the factors of urban and regional changes. Thus, the external and internal factors influencing the development of Baneh are analyzed. Most sources and samples used in this paper were obtained through library and field studies. Descriptive and analytical methods had been used. The data and information had been collected through face to face interviews with local actors, photography, field surveys and visits to the border region. The extend of the informal economy and its spatial consequences had been analyzed and considered on macro and micro level (urban and regional level). Some development, such as the increase in commercial land use was analyzed in the city center on the micro level (urban level), while unprecedented demographic changes in the border villages had been considered on macro level. A SWOT analysis was performed in order to analysis the opportunities and challenges of the economical and touristic development of the city. The desired status for this study is achieving a sustainable development of Baneh by relying on an optimum management and planning of the recent processes in the region. The method of the SWOT analysis is used as a technique for strategic planning models. The external and internal factors of the system (the city of Baneh) are identified and codified. The identified factors act beneficial or detrimental for achieving the goal. In this technique, weaknesses and strengths are determined as internal factors, opportunities and threats are determined as external factors. The strategies are extracted by facing external and internal factors together. Table 1 illustrate the produced strategies and the relation of the factors to each other.

Table 1. S.W.O.T. Table Structure; The relation between Strengths, Weaknesses, Opportunities and Threats and the output strategies

Weaknesses	Strengths	
Offensive Strategies How do I overcome the weaknesses by using the opportunities?	Planning How do I use these strengths to take advantage of the opportunities?	Opportunities
Critical Issues How do I address the weaknesses that will make the threats a reality?	Defensive Strategies How do I use my Strengths to reduce the likelihood and impact of the threats?	Threats

Source : Pires and Robinson, 2001 & Authors modification 2015

Trade-based tourism industry

Commercial tourism which is defined by Davidson as travel for purposes related to work, it is considered one of the earliest forms of tourism (Davidson, 1994: 1). According to World Bank's research, tourism is confirmed as a strong factor in regional development (Hawkins, 2007:350). According to Laurel et al., most governments realize the role and importance of tourism as a source to generate income and employment. Most governments developed strategies for developing the tourism industry (Laurel, 2007). On regional level tourism can help to increase income in the destinations through the expenditures of tourists or tour operators directly. (Gee & Chuck, 2003). Thus tourism is a widespread activity which accompanies important economic, social, cultural and environmental effects with itself playing an effective role in regional development (Alizadeh, 2003: 57). Used in a responsible way, tourism can highlight regional authenticities and helps to preserve and improve these authenticities resulting in the growth and development of national income (Mikaeili, 2000: 21-22). Along with the planning for touristic development, sustainability aspects should be noted. Griffin underlines that some countries have adopted the strategy of sustainable tourism development (Griffin, 1999:10). In 1999 at the UN conference on environment and development in Rio de Janeiro it was asserted that travel and tourism have prepared suitable and positive solutions to achieve sustainable development goals as one of the major sectors of economy (W.T.O, 1999: 1).

Nowadays, urban tourism is an important activity that has stimulated social actions and spatial changes (Cazes & Potier, 2003: 10). According to the theoretical frame of urban planning, tourism has an important role in urban development. The urban infrastructure has to be planned taking into consideration the needs of the tourism industry. This is specifically relevant for cities such as Baneh, which are located on the edge of the country. The border regions is benefiting from the flows of financial capital, goods and the commercial tourism, which are the key factors for the recent flourishing dynamics. They constituted the major factors for the local economic activities, capital accumulation and development of the border region.

The concept of informal economy and its consequences

The gross domestic product (GDP) is determined by all official registered and accounted economic activities of all economic actors. The aim of those national accounting system is regarding to Mardokhi (2012) to enter the production value of all actors and economic activities in the national accounting system. In developing countries the establishment of informal economy had been enabled since not all economic activities and actors are registered. They act individually and outside of the formal system. Mardokhi believes that 'formal activities' produce in developing countries serious obstacles, which let actors prefer to work out of the formal system. The state creates those obstacles through bureaucracy, which makes formal activities so complex, expensive and lasting that it prevents actors from even trying. It may be said that bureaucracy is the most important factor for creation and extension of informal economy in Iran, that it has obvious impact as well on Baneh city (Mardokhi, 2012). Increasing tax burden and social security payments combined with increasing restrictions on the formal labor market and the low wage level in the formal economy increase the tendency of establishing informal economy (Schnider & Enste, 2000). Feige classified informal economy in to four groups:

1. Illegal economy
2. Not reported economy
3. Unregistered economy
4. Informal economy

In illegal economy, the rules which define legal forms of trade are violated. Actors are employed in the production and distribution of forbidden goods and services. The costs are ignored and inserted interests in the laws and administrative rules, property relationships, commercial licensing, labor contracts, damages, financial credit

systems and social security are deprived (Feige, 1990: 991-2). In the broader sense, informal economy are all activities that are not entered in the national accounts due to any reasons (Thomas et al, 1997: 3).

Informal economy can have various consequences. Some of the positive and negative consequences of informal economy are:

- Deduction of production inputs especially work forces from the formal economy
- GDP decrease in case of informal economy growth (Frey, 1984)
- Significant increase in tax revenues
- Simulation of economic growth in the face of declining informal exchange
- Optimization of the underground economy to respond to the demands of the economic environment of urban services and small-scale industry
- Efficiency and positive relationship between the underground economy and economic growth (Schnider & Enste, 2000)
- Intensification of tax evasion (Bhattacharyya , 1999)
- Stimulating the demand for bank notes and coins
- Decrease of inflationary policy as a result of increasing uncontrolled money supply.
- Increasing financial activities outside the control of the central bank
- Raising potential for political corruption
- Increasing public pessimism about the role and power of government and the efficiency of the tax system
- Reduced public support for voluntary compliance with tax (Giles, 1999).

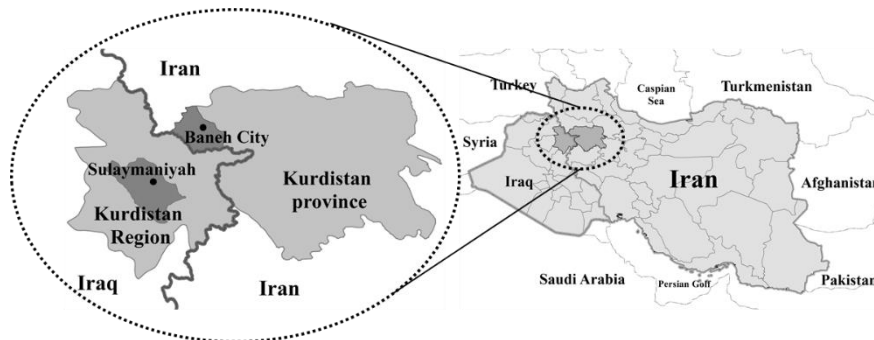
While focusing on Baneh, it seems that the relevance of informal economy is slightly different, providing a synthesis of mentioned consequences and adding further factors. The location in a border region, neighboring the troubled Iraq, the

marginalization of the region, the weak local economy and currency issues of Iran increase the attractiveness of informal economic activities. The hidden economy of Baneh County is influenced by factors like tax evasion, failure of registering trade in national accounting system, ignoring legal forms of trade, ignoring institutional financial rules, failure to report to the governmental statistical center, evasion from the cost of transaction and lack of licensing of commerce.

Case Study: Baneh - a city with national and international interactions

Baneh County has specifics that distinguish it from other regions of Iran. The political-administrative center of Baneh County is located at a distance of about 170 km from the capital of Iraqi Kurdistan, Sulaymaniyah, putting the city in a close proximity towards neighboring Iraq. The geographic location provides a specific opportunity for the exchange of goods between the two countries.

Fig. 1 Geographical location of Baneh County



Source: Authors, 2014

Baneh and the cross-border flows of informal economy

The informal economy connected to the border shapes the economic base of Baneh. A large number of residents work in border trade, using livestock and special cars ‘Fig. 2-3’, which are made for crossing the border illegally in Baneh County. The economic flows in the region are divided into two sets of activities:

1. Activities performed in order to transfer goods formally or informally from the Iraqi cities Sulaymaniyah and Erbil to Baneh
2. Commercial activities related to the distribution of those smuggled goods within Baneh.

The goods are usually bought by 'commercial tourists' from the north, west and northwest of Iran. The buyers are attracted by the low price of the smuggled goods.

Fig. 2 and 3 Baneh Border residents transferring smuggled goods



Source: The headquarters of the fight against smuggling, 2015.

Until summer 2012 the low rate of currency, determined by the government of Iran, lead to the formation of smuggling by crossing informally the border of the country. As a result, enormous profits are earned by those engaged in smuggling and an informal economical system was established, connecting the border residents of Baneh with smugglers in the neighboring countries. The dynamic development of Baneh County which is affected by the border is the most important consequence of the informal economy flows in this marginalized region. The border region creates to a certain extend their own development circuit, outweighing the disadvantages like the distance from the center, geographical isolation, ongoing displacement of population and cultural, ethnic, religious tensions with the central regions. Cross-border activities can be understood as a chance for economic stimulation for border regions. Unlike in previous periods, Baneh is nowadays faced with extensive spatial changes, caused by the proximity to the border. The town became the most important hub for selling and buying of informal imported goods in Iran, which creates a vast impact that can be observed in the cityscape.

Functional-spatial consequences of the informal economy and commercial tourism in Baneh

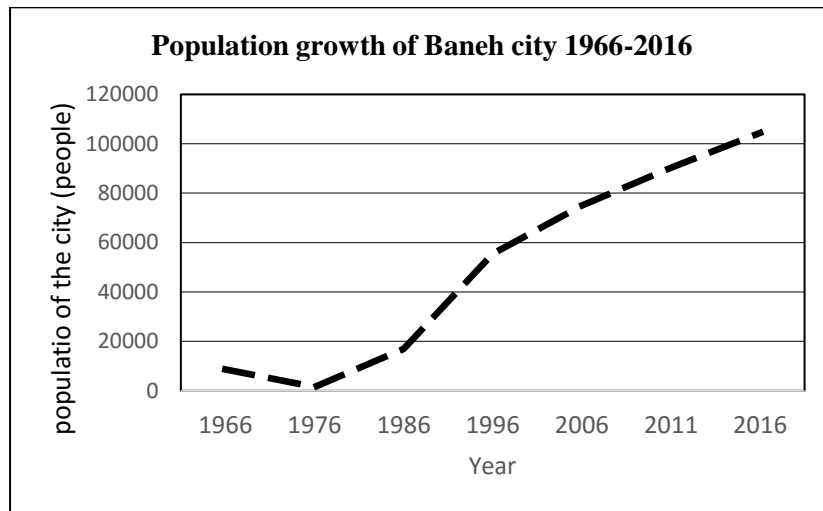
The population of Baneh has increased continually from 1966 up to now. This population growth is based on a positive migration, underlining the attractiveness of the location at the border. Despite this fact, the government undertook actions in order to make people stay in the border settlements, but most of these plans could not improve the quality of life for the border residents.

Table 2. Population growth of Baneh city

Year	1966	1976	1986	1996	2006	2011	2016
Population	8617	1552	16933	55433	74960	90304	104422

Source: Statistical Center of Iran

Fig. 4 Population growth of Baneh city



Source: Statistical Center of Iran

Shopping malls and commercial centers – the development of trade tourism in Baneh

The most important and obvious physical impact of the informal border economy on Baneh is the building of commercial centers and shopping malls. Until the 1990s, Baneh did not have any indoor shopping centers or malls. The main commercial district of the city was located at the main street in the downtown, forming a commercial axis which supplied the residents with products of daily and monthly needs. After the 1990s and especially from the 2000s, the commercial centers appeared. They contained at the beginning two- and three-story and recently several floors. According to Aminnejad's research after 1996, ten large malls were constructed in seven years with 8950 sqm commercial area and 831 shops (Aminnejad, 2004: 63). Until 2013 54 malls had been constructed. These commercial centers are the places where the informal imported or smuggled goods are offered and sold. Those malls have a catchment area which is reaching far beyond the region.

Table 3. Number of shopping malls in Baneh

Year	1996	2006	2007	2013
Number of malls	1	14	23	54

Source: Cultural, handicrafts and tourism Heritage of Baneh city, 2014.

The vast construction of malls in a small city like Baneh is neither sponsored nor financially supported by the central or local government. More than 1.500.000 tourists visited Baneh city in the first four months of 2009 (Felegari, 2009). They had been mostly attracted by the offered illegal imported goods with low prices. According to the head of the Cultural, Handicrafts and Tourism Heritage authority of Baneh, in summer 2013 five thousands tourists visited Baneh daily, creating vast physical-spatial consequences.

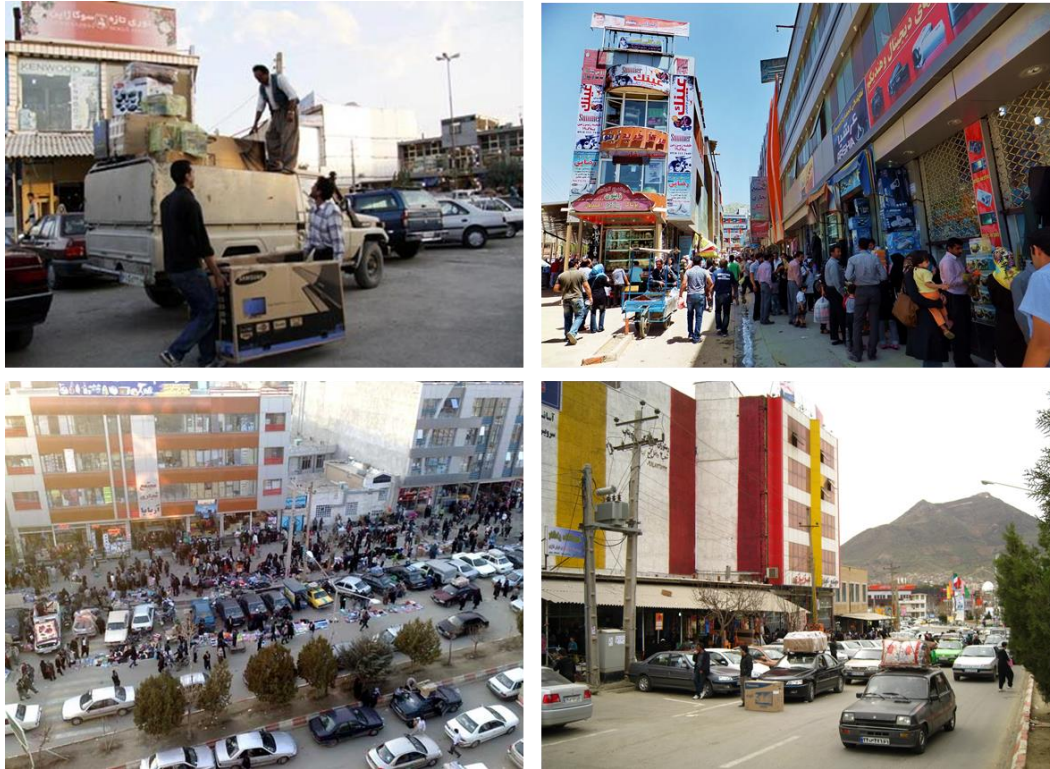
Table 4. Tourists visiting Baneh city in the first 20 days/year

Year	2005	2006	2007	2009	2011	2012	2014
Tourists	25000	264000	568000	1438500	700000	612000	630000

Source: Cultural, handicrafts and tourism Heritage of Baneh city, 2014.

The tourist attentions are attracted by the number of services such as inns, hotels, restaurants, catering facilities and banks which form the physical texture of Baneh. Furthermore, due to the large number of tourists, hidden jobs in the tourism industry are created related to one and two-day rental dealer for inns, hotels or even residential homes licensed by the cultural Heritage of Baneh. The city is perceived, especially in holidays, as a space of tourists.

Fig. 5,6,7 and 8 Tourists in the new commercial center of Baneh city

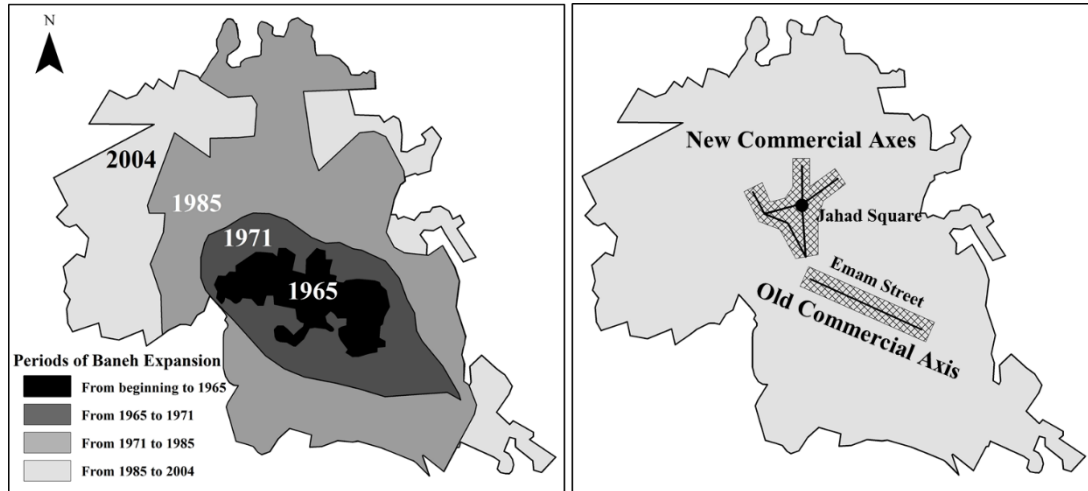


Source: Authors, 2014.

Shifting the commercial core of Baneh

The boom of trade as a consequence of the informal economy and commercial tourism has strengthened the economic heart of Baneh. The commercial centers expanded to the north and northwest of the city (Municipality Street, Shohada Street, and Jihad square). Multi-story buildings and shopping malls were constructed around the new commercial core of the city. The shifting commercial resulted in a concentration of administrative centers, banks, services and catering facilities around the new commercial core and increasing land and rental prices in this part of the city. Indirectly the concentration of commercial centers in the new core had stimulated further construction activities so that the phase one and two of Golshahr town and Azadegan town had been constructed in 1991 to 1996 and 1999 to 2003 (Aminejad, 2004: 63).

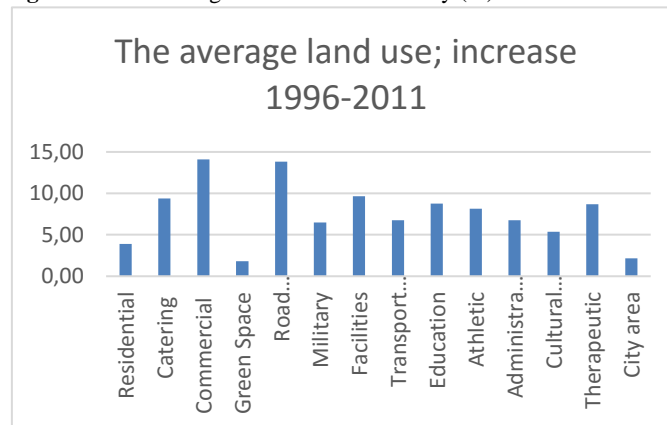
Fig. 9 and 10 Shifting the commercial core of Baneh



Source: Authors, 2013.

The share of commercial, catering and roads land uses have increased in the time period 1996 to 2011. The commercial area of the city has increased from 29.000 sqm in 1996 to 245.000 sqm in 2011. It should be noted that this figure is only specified to the land use. New commercial centers are made in multi-story buildings. The commercial land use per capita can be calculated with approximately 8.16 sqm, by assuming three floors in the average building. This impressive allocation per head is noteworthy, since it is far above the normal allocation rates.

Fig. 11 The land use growth rate in Baneh city (%) from 1996 to 2011.



Source: the statistics of Baneh city municipality, with author's modifications, 2013.

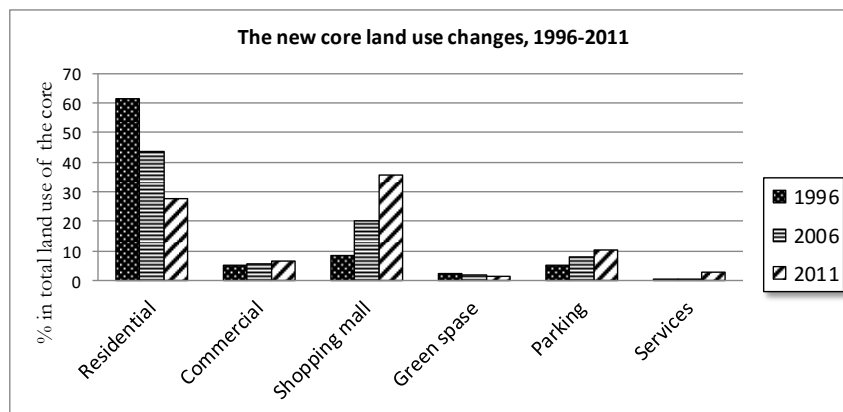
The analysis of land use changes underline the intensive increase of shopping malls during the new urban expansions of the city from 1996 to 2011. The share of new core land uses are shown in table5. The comparison of the changes point out the reduction of residential land use and the growth of commercial land use in the new core. It seems that the constructions of shopping malls caused to the destruction of residential buildings in the new core of the city.

Table 5. The share of land uses in the new commercial core of Baneh city (%), 1996 to 2011

Land use	1996	2006	2011
Residential	61.5	43.79	27.59
Commercial	5.17	5.52	6.42
Shopping mall	8.46	20.12	35.55
Green space	2.32	1.7	1.22
Parking	5.09	7.77	10.2
Services	0.7	0.7	2.6

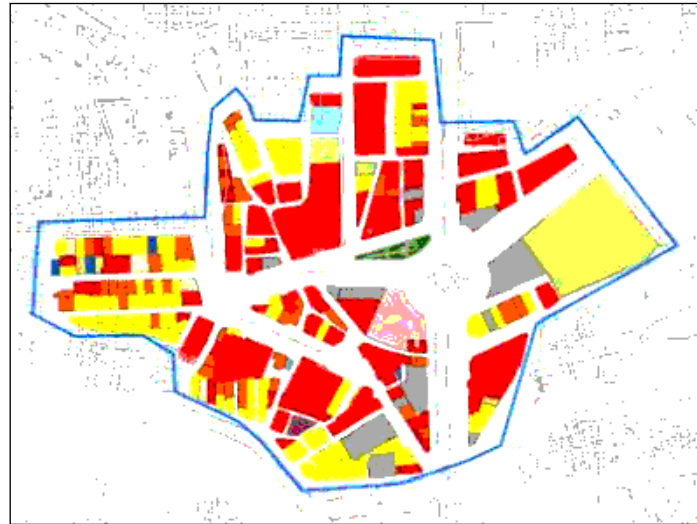
Source: Abdekhoda, 2013 & authors modifications, 2015.

Fig. 12 The new core land use changes, 1996 - 2011



Source: the authors

Fig. 13 The new core of Baneh city, 2011



Source: Abdekhoda, 2013.

The dynamic economic development of Baneh results beside the increase of commercial malls and urban sprawl in the growth of municipality revenue in toll and taxes. In 2003 the revenue just from the formal border bazaar in Siranband had been calculated with about 330.000 US Dollars. Additionally the municipality charged 2013 one dollar per car and entry for parking. If the revenues are used wisely, they can help to create needed infrastructure and enable an urban development which is not dependent on agriculture and industry.

Instability of economic development - the main challenge for the city growth

The lack of manufacturing and industrial factories and under developed agriculture due to the mountainous nature of the region, resulted in a high unemployment in Baneh. The lack of employment for young people have pushed most of them towards informal economic activities and smuggling, helping them to aggregate a good income. Still the income is unsecure and unstable, since the smuggling activities depend on the counter measures of the border police. If the policy of the border troops is oriented towards non-involvement income can be generated, if not the smuggled goods will be confiscated, erasing the income.

It can be summarized that the informal economic activities, which are the basis for the current economic growth and flourishing of the city and the region basically depend on the policies and decisions applied by the police commander and

governmental managers. Furthermore, the ‘real’ exchange rate in Iran can have irreversible effects on informal activity of border residents. In fact, the current price of exchange, which is determined by the government, is lower than the real exchange price. The border residents buy the government cheap dollars and use them to buy goods across the border with the actual rate. If the government will decide to adapt the current exchange rate to the real exchange rate, smuggling and informal activities will generate no more profits for border residents. Due to the possibility of changing policies and decisions of government agents and local decision-making institutions, the current border economy is highly dependent on external factors and cannot be understood as sustainable. Therefore, strategic, long term planning has to be the basic requirements for the regional development of Baneh border County.

As before described a SWOT analysis on the region was performed. Table 6 summarize the strengths, weaknesses, opportunities and threats of Baneh. The table highlight the urban development based on commercial tourism and the consequences of the informal economy. Internal factors are those factors which can be influenced in Baneh, external factor are those challenges which are pressed upon the city.

In planning context, the analysis extract strategies that will exploit the strengths and opportunities such as formalizing informal trade by creating a free trade zone, a better management of infrastructure and the establishing of a sustainable local tax system. Strategies like supporting investment flows, developing the tourism and transport infrastructure help to overcome the weaknesses. Strategies which help to overcome threats are supporting the frontiersman in order to create unity and human dignity by the government and supporting the informal economy by a general review of regional development plans.

Table 6. SWOT Analysis

Weaknesses		Strengths		Opportunities
B1 Inadequate access to border areas B2 Intense dependence of people on the informal economy B3 high level of risks B4 Weak support of investment flows B5 Economic structure change from agriculture to informal economy B6 The lack of tourism and recreational infrastructure	A1 Baneh`s border location and the possibility of cross-border trade A2 Economic relation with Iraq A3 Income from tourists and exchange of goods A4 Economic flourishing rural areas as a result of the informal economy A5 socio-economic security through the informal economy A6 Huge number of tourists in Baneh	Internal Origin	External Origin	
B2,B5,-C4 Reduced dependence on the informal economy by strengthening other sectors B4-C5 Supporting investment flows and attracting capitals B6-C3 justification of the various security organs and institutions towards the cross-border informal economy B1,B6-C4 Strengthening transport infrastructure and tourism	A1-C1 Formalizing the informal economy A2-C2 Developing the Iran and Iraq economic relations A3- C4 Managing the transformation of infrastructures, services and manufacturing A1-C2 Creation of tax-free commercial zones A5-C5 Establishing of an exact tax system A6-C6 Renovation and extending the tourism infrastructures	C1 Possibility of formalizing the informal economy C2 Possibility of creating tax-free economic zone in the region C3 Possibility of taxing the informal sector castors C4 Development possibility of infrastructure, services and industries C5 Possibility of steering investments into the villages in order to develop and stabilize the rural areas C6 Development possibility of tourism facilities		
B2,B4,B6-D4 underdeveloped economy	A1 -D1,D2 Central government support for the development of human dignity	D1 Clashes between security agents with smugglers		

<p>and insecurity of the recent economic prosperity</p> <p>B2,B5-D4</p> <p>Economic risks in the event of a sudden change on the border regime</p> <p>B4,B5-D3 Lack of specific plans for the use of capital</p> <p>B2,B3-D1 The unstable and dangerous life of border smugglers</p>	<p>and national unity in the border region</p> <p>A4,A5-D4</p> <p>Supporting the current informal border economy</p> <p>A6-D5 Management and monitoring of tourism impacts on indigenous people's culture and enhancement the authentic identity of Baneh</p>	<p>D2 threatening the territorial integrity thereby win-win policy of good exchanges between Kurdistan province of Iran and Iraq</p> <p>D3 lack of economic diversification and Instability of the informal economy</p> <p>D4 damaging the life standard of Baneh County by closing the borders and preventing the informal economy</p> <p>D5 negative effects of tourism on the traditional cultural habits</p>	Threats
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Source: the authors 2015

Conclusion

In this paper the impacts and consequences of informal economy and commercial tourism at the border are reviewed, analyzed and identified. Recent flourishing economic developments of Baneh city are considered as opportunity for a sustainable development but as well as threats which need more careful planning. The instability of this boom is the main challenge. The variable policies of national government and local decision making institutions concerning the border regions, fluctuations of exchange rate, loss of capital from the region, a lack of turnover management and more importantly a lack of defined processes on how to use this capital flow and spent it to create basic infrastructures of regional development will challenge the city of Baneh. In plans like the Regional Development Comprehensive Plan, Service description is set standard and pre-defined. This plan investigates different regions of the country with various characters by the same and inflexible approach. The basic economy of a region is always included into the Service description of the Regional Development Comprehensive Plan, but rarely pays attention to study and analyze the informal activities. The informal economy in the Baneh border region is the most important effective factor on regional economic activities. The Regional Development Comprehensive Plan and other similar plans do not have the capacity and appropriate approach to review and analyze such issues. The

question remains, which approach should be followed by current and future regional planning systems? Thus, the modeling and analysis of specific areas with specific functions and challenges requires a deeper study and more realistic approaches. This process surely has specific problems and can be considered in studies of scientific community's researchers. This article is an attempt and an example on how to investigate those issues and interactions in border regions. The approach can help us to modify or adjust new models and efficient development plans. At the end it should be asked which institutional agents and decision makers on local, regional and national level can propose appropriate solutions to achieve the objectives of regional development programs and deal with mentioned problems at the same time?

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